

Date: December 10, 2015

To: Ladies and Gentlemen of the Board

From: Barbara Quinn

RE: Public Pension Financial Forum (P2F2) 10/25 to 10/28/2015

Thank you for allowing me to attend the P2F2 conference this year. This conference was very engaging and informative. The training was pertinent to pensions, timely in light of the latest GASB projects and new releases, and a great way to enhance my accounting knowledge. It was also a good networking opportunity with other financial professionals who have similar issues to MPERA's and obtain guidance and support from speakers and other professionals.

**Generational Insights – Sherri Petro**

The class defined the work styles and learning strategies of the different generations. It also examined each generation's motivation and how the four generations interact in the work place. Tips were shared on how to decrease generational conflict and create better communication and best practices in the work place.

**AICPA Audit & Accounting Guide for State and Local Governments Update Census Data Audit Procedures** - Kevin Smith, Crowe Horwath, LLP; Ahni Smith, Police and Fire of CO – Census Data Audit Procedures; Bruce Woolley, New York TRS – Census Data Audit Procedures; Jason Ostroski, CliftonLarsenAllenLLP, - Census Data Audit Procedures

This session discussed the challenges for auditors of both the pension administrations and the employers. The AICPA released a new Audit & Accounting Guide for State and Local Governments which recommends best practices for the new reporting standards. It also discussed the audit of census data, the importance of the assumptions of the discount rate and the mortality rates. Discussions included common questions of auditors and what modifications might be needed in year two and beyond.

**Ethics - What is different about organizations that stay out of the headlines? - Marianne Jennings**

This was an excellent session on ethics so I took the liberty to leave some of my notes for the board summary. Marianne is college professor, researcher and an engaging presenter, who uses her research and experience to effectively communicate the topic of ethics. Marianne is a repeat presenter because she has been so well received.

It is often stated that "it is not the company's culture". What would make employees think a behavior is okay? When accusations are brought to light, why are they not investigated by management or why were the notifications buried? A compliance program is not enough. Stress and pressure cause people to act irrationally. How do we curb the pressures? Lay out the rules/requirements; how often do we talk about performance? Many times and multiple times per day; how often do we talk about ethics? Many times only once a year. Put a person's name at top of report, not the end. Give people an out if they self-report. Give the why behind the rules. People will forget the rules but they don't forget the stories.

Be careful with the motivational Mantras. Develop a Personal Credo: consider what it is that I would never do AND write it down. Ask employees for the bad news. What keeps them up at night? Employee engagement and satisfaction surveys are not effective. The only thing that works is a positive reaction to negative news.

Moral relativism – if the outcome is noble then the means to get there is irrelevant.

Truth - The ability to understand how a person's behavior would impact society if everyone acted the same way. Rationalization is not ethical analysis.

### **Media Training – Public Pension and the News - Mark Bernheimer**

This again was a very engaging session and I left some of the most pertinent notes in the write up. This is a type of training that is not offered often and very good information about media interaction. Mark brought a camera and asked people from the audience to perform an interview. Then the interview was reviewed and critiqued.

Be careful of which interviews are accepted. Use language that is compelling to the reporter. Use statistics and present the points. The things that will get a person in trouble: 1) When you don't know the answer, never make it up. Say you don't know and will get back to them. 2) Don't answer questions that are complicated and you don't understand them. Ask them to restate or clarify the question. 3) If someone else should answer the question, refer them. The fact you know the answer is not a good reason to answer the question. 4) An answer that calls for much speculation, don't get roped in. Say I can't speculate. 5) Every question deserves a response, not true.

Saying "No comment" = assumes guilt; Saying "off the record" – don't ever do it.

Repeat the question in the response. Use a complete thought.

Interview behavior: below the waist – no movement; above the waist – normal movement

Don't answer speculative questions. When asked "Is there anything else you wanted to add" – respond with something, repeat the most important thing.

### **Behavioral Interviewing /Writing Performance Evaluations - David Fares**

This session encouraged the use of behavior based interview questions. This type of interviewing is Interactive, Introspective, and Engaging. Probe and challenge in the interview; check references on a couple of bosses, a couple of co-workers and a couple of subordinates, if applicable. What has this person done, what could have they done better. RULE OF THREE - Interview at least 3 candidates, have at least 3 people interview, and interview them at least 3 times. When making the commitment to spend the time to hire – hire the right person. Turnover is costly, even a great manager has a hard time managing an employee with low talent. A poor employee impacts staff morale. Hire tough, manage easy; Hire easy, manage tough. Take away – put the time into interviewing. Hiring the right person, coaching them to become better and let go of those who are not carrying their load. Super Stars: Talk to employees on what motivates them, how they like to be acknowledged, how to retain them. Middle Stars: Coach them, how to make them better, what do they need, what motivates them. Falling Stars: tell the facts, realistic on performance, how to improve, move them up or out.

### **Excel Tips – Karl Greve and Lawrence Mundy, Colorado PERA**

Excel is a primary tool for accountants. This session covered some ways to use excel to analyze data and report financial information. The training showed improved processes that help the user to be more productive.

### **Leadership 2020 - Reggie Butler, Performance Paradigm**

Reggie was a very engaging speaker that got his audience involved while communicating ways to develop and motivate people. Being a success leader has changed from what it was five years ago. Everyone is under pressure to get more done and get more out of each employee all the while maintaining cost control and meeting deadlines. His Goal was to communicate ways to be a trusted leader. People on a mission with plans have less stress. Good leaders have focus. The brain cannot learn when it is frustrated. The brain can learn when it is fascinated. Critical thinking is day to day (now). Strategic thinking is year to year (future). Find the shared experience to pull the group together. Do not decide to not do anything – make a difference. May not be able to change but can influence.

### **GASB Update - David Bean**

New pension projects from GASB. Discussion of two new standards: GASB Statement 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68. GASB Statement 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This session also provided a review other projects (Leases; Fiduciary responsibilities (exposure draft review); Financial Reporting Model, a reexamination of Statement 34). GASB is also reviewing the Taft Hartley plans (not state and local plans); Covered Payroll; and Fiduciary activities.

### **PAFR Panel**

Why is it beneficial to create a PAFR? The rank and file don't understand the disclosure reporting of the CAFR and this provides plain language for the general public. GFOA awards properly prepared PAFRs. The PAFR must disclose where deviates from GAAP. Preparers must rely on the checklist for the reviewer for a PAFR. MPERA could consider taking this on as a new project.

### **OPEB - OPEB and Additional Pension Issues - David Bean**

Issues raised by stakeholders Taft-Hartley Plans (and similar plans) were spun-off into a separate project 1) Timing of the measurement of liability; 2) Disclosure of annual required contribution (ARC) as a benchmark; 3) Covered-employee payroll; 4) Application of administrative costs as a reduction of discount rate; 5) Treatment of employer-paid member contributions; and 6) Deviations from Actuarial Standards of Practice (ASOPs)

Covered Payroll – GASB meeting on 10/26/2015; proposed that GASB will go back to covered payroll; can it be early implemented? Presenter can't say in a public meeting.

ASOPs - will be counted as an employee contribution; note disclosure of employer pick up; Tentative Decisions 1) Plan classification – in a manner consistent with their designation **pursuant to the pension plan terms** a) would be reflected in the face of the financial statements, b) applies to all types of plans; 2) Employer classification – salary expense, exploring a note disclosure of employer pick up

OPEB - If it has an inkling of defined benefit, it is defined benefit

### **Actuary 101 – GRS - B. Armstrong & M. Algayer /Actuary 201 – CavMac - Brent Banister**

Mortality Tables - Auditors are giving more attention to mortality tables. RP2014 table does not include public plan data, it was thrown out.

GASB 67 & 68 - 67 is much easier in the second year; 68 is going to be complicated for another couple years.

GASB exposes that some new system money (new hires) is used to pay current year obligations. *Models are used to compare situations; GASB is using a model to predict*

To cover the UAL we can use the payroll of the current and new hires or the retirees

Actuarial Studies - Professional judgement; Tell the actuary all that you know so the external influences aren't a surprise.

### **Legislative Update - Leigh Snell, National Council on Teacher Retirement (NCTR)**

Leigh provides updates every year to the P2F2 conference and is very involved in all that happens on Capitol Hill. He reports that 2015 has not been a problematic year for pensions, at least so far.

### **Economic Update - Asha Bangalore**

The Fed is going to make an announcement today, October 28<sup>th</sup>, and the prediction is they will not take any action. Duration of 18 months for recession is a record as is the low GDP. GDP has increased 4% from June 2009. The performance of economy is slow. Usually the Feds cause the expansion but this time not so. There has

recently been strengthening of the dollar by 15%. Exports of the U.S. have been held back and the debt ceiling has been increased until March. The new speaker Paul Ryan has a clean slate to begin. Will the Fed tighten monetary policy? The risk of waiting is smaller than the risk of tightening. The last time the Feds tightened monetary policy, the second leg of the depression happened. There is a possibility that the Feds will tighten in December. What will the impacts of the rest of the world have? China will not improve in the next two months. The Eurozone (largest: Germany, France, Italy and Spain) need a uniform monetary policy for all of these zones. What will happen in China? One of the largest importers; China is 1.9% of US GDP exports; China restricts investments in their industries; Drivers of china growth – exports and investments; China will not change in next 6 months; China has older population; and growth will be 5-6% not 10%. DB Plans will need higher interest rates or more contributions. There are fewer DB plans and nationally the funding is at about 70%.

**Tax Update - Mary Beth Braitman and David Levine**

Determination letters – the IRS plans to discontinue; they did this without requesting any advice from customers; the program is critically important; the comment period closed; they are taking dates off the determination letters; January 31, 2016 ends Cycle E filing.

Federal Plans - The most senior members retire with 100% of pay; the positions could not go to lower level workers so audit staff were hired; this slows the work and results in cut backs. The government's role is compliance, but they generate revenue; the budgets were cut and reorganization is taking place.

Audit Letters from the IRS – this is usually a year long process, more audits now taking place that previously only happened with school districts; make sure the highest level officials are notified; establish a process for the audit, team, schedule; dedicate resources full time if necessary; be one step ahead of the auditors; don't put auditors in the middle of operations, and allow only specific people to access the auditors.

IRS settlements - Fines cannot be paid out of the trust fund assets, once you go to appeals, you have already lost, in order to do a self-correction program, you must have a current determination letter.

Corrections - Overpayments – stated that plans must get the money but IRS has backed off because they don't want people to be mistreated and it does not pay to spend much to get zero, 415s are self-corrected every day of the week, missed amendments, many plans missed the 70.5 distributions – self correction and capped at about \$3k. Interest rate is flexible on interest rates, there are exceptions to full corrections.

Governmental Plans - Exempt from many annoying requirements and gave a discussion on Charter Schools (picked up handout for legal as to the documentation Ice Miller put together).

1099 - Early Distribution Penalty, plan makes the call on the taxability of the payment, retirement/ separation from service, and where has the hiring process gone awry.

Again, thank you for this opportunity to attend the P2F2 conference. It is valuable information for financial professionals in the pension industry and not the type of training that is commonly found in state.